

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Periodic Reporting  
(Proposal Two)

Docket No. RM2021-4

PUBLIC REPRESENTATIVE COMMENTS  
(May 14, 2021)

I. INTRODUCTION

The Public Representative hereby provides comments in response to Commission Order No. 5852.<sup>1</sup> In that Order, the Commission established the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, regarding proposed changes to analytical principles relating to periodic reports.<sup>2</sup>

II. BACKGROUND

The Postal Service proposes to alter the methodology for the workshare model for First-Class Mail letters that is developed and filed each year as part of the Postal Service's Annual Compliance Report (ACR). Petition, Proposal Two at 1.

With Proposal Two, the Postal Service seeks to "revise cost pool classifications for the determination of the proportional and fixed adjustment to modeled costs" and "update the cost pool classification vocabulary to better reflect how the cost pools are treated in the calibration methodology." *Id.* at 4. The Postal Service proposes to classify costs into three pools: (1) Modeled/Proportional Pools, (2) Unrelated to Presort,

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<sup>1</sup> Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Two), April 20, 2021 (Order No. 5852).

<sup>2</sup> Petition of The United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Two), March 24, 2021.

Correlated with Presort, *Id.* “Modeled/Proportional Pools” include “cost pools where the mailflow model directly characterizes the flow of mail through the pools and measures the cost of the component activities.” *Id.* at 5. “Unrelated to Presort” include cost pools where the “activities performed are incurred because of piece characteristics unrelated to presort and thus the costs are invariant to presort, and pools where the costs have spurious correlation with presort.” *Id.* at 6. “Correlated with Presort” include cost pools “where the activities performed are incurred because of piece characteristics unrelated to presort and thus the costs are invariant to presort, and pools where the costs have spurious correlation with presort.” *Id.* Additionally, the Postal Service proposes the “discontinuing the P.O. box component of the First-Class letter model.” *Id.* at 10.

#### IV. COMMENTS

The Postal Service contends that “For Modeled/Proportional cost pools, the existence of presorting would be expected to yield proportions of costs (IOCS tallies) that differ systematically from proportions of volumes, with increased presort levels being associated with lower costs relative to volumes. In contrast, costs in Unrelated operations should exhibit proportions of costs highly similar to volume proportions if the underlying assumption that unit costs do not vary systematically with presort level is correct.” The Postal Service relies on a qualitative analysis to justify its categorization of cost pools. Additionally, it presents an analysis of FY 2020 IOCS mail processing tallies by rate category and cost pool to support its categorization of costs. Specifically, it compares the distinct proportions of tallies by presort level for the three cost pool categories with the volume shares by presort level. The Postal Service contends that the analysis shows that “the differences in the Unrelated cost and volume proportions are relatively small.” From this the Postal Service infers that the cost pools in the Unrelated category are properly categorized as fixed with respect to presort level.

The Postal Service proposes to classify the following 19 cost pools as unrelated to presort: 1CANCEL, 1MTRPREP, 1PLATFRM, 1SCAN, BUSREPLY, EXPRESS,

REGISTRY, REWRAP, 1MISC, Platform, Allied, BulkAccp, BusReply, CFSCMU, Express, Miscellaneous, Oth Acct, PO Box, and Registry.

The Commission should reject the Postal Service's proposal to classify First-Class Mail Presort Letters cost pools for allied activities as Unrelated. The qualitative analysis presented by the Postal Service only touches on a few cost pools, and provides no new rationale compared with previous dockets where it tried to persuade the Commission to treat allied costs as fixed with respect to presort. And, although the Postal Service presents some empirical evidence to justify its proposed changes, it fails to meet the burden of proof necessary to compel a change to the treatment of allied cost pools.

The Commission has rejected numerous proposals by the Postal Service to categorize allied costs as fixed. In Docket No. R2000-1, the Commission, relying on the testimony of Postal Service witness Miller that worksharing could affect the costs in platform, support, and non-MODS allied pools, found that allied cost pools are "affected by worksharing activities (including mail preparation)."<sup>3</sup> In Docket No. R2006-14, the Commission found that "the Postal Service's assumption that the cost of non-modeled operations are not affected by worksharing to be insufficiently supported." It noted that the majority of the costs that interveners claimed were "inappropriately treated as fixed" were in "mail processing activities that support other mail processing activities." The Commission concluded that it is "reasonable to assume that these supporting costs are at least indirectly affected by worksharing." *Id.* Most recently, in Docket No. RM2010-13, the Commission once again reiterated its finding that the costs associated with allied operations are incurred to support all processing operations, including the sorting operations.<sup>5</sup> The Commission explained that it "remains convinced that distributing

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<sup>3</sup> Docket No. R2000-1, Opinion and Recommended Decision, at 241.

<sup>4</sup> Docket No. R2000-1, Opinion and Recommended Decision, ¶ 5160.

<sup>5</sup> Docket No. RM2010-13, Order No. 1320 - Order Resolving Technical Issues Concerning the Calculation of Workshare Discounts, April 20, 2012.

allied/support and unexpected costs in the same proportions as all other costs is the best approximation of the effect that presort level has on those costs.”

The argument the Postal Service puts forth is based on an analysis of IOCS tallies. The Postal Service claims that its categories of costs are reasonable because the average proportion of tallies by presort level for the Unrelated category is more closely aligned with the proportions of volume by presort level compared with the correlated and modeled/proportional categories. However, a thorough examination of the proportion of costs by presort level for the activities included in Unrelated shows that some cost pools categorized as Unrelated are less aligned with the proportions of volume by presort level than some cost pools in the correlated and modeled/proportional categories. Table 1 shows the proportion of tallies by presort level for a select number of Unrelated cost pools. Of these, 1CANCEL, 1PLATFRM, 1SCAN, and EXPRESS come the closest to matching the proportions of RPW volume. However, even these do not vary much from the average for the Correlated with Presort category, 65 percent for 5-Digit, 29 percent for AADC and 6 percent for MAADC. There are also a number of cost pools that are classified by the Postal Service as correlated, where the IOCS tallies by presort level are closer to the RPW proportions than those for some allied activities. One example is 1TRAYSRT. The proportions, 71 percent for 5-Digit, 26 percent for AADC and 2 percent for MAADC, more closely match the RPW proportions than most of the cost pools that the Postal Service identifies as Unrelated. The Postal Service states that “Unrelated operations should exhibit proportions of costs highly similar to volume proportions if the underlying assumption that unit costs do not vary systematically with presort level is correct.”

As Table 1 shows, the proportion of tallies are not highly similar to the volume proportions for a number of cost pools categorized by the Postal Service as unrelated. Therefore, based on its own test, the Postal Service miscategorizes allied operations as Unrelated.

Table 1

Cost Pool	5-Digit BC	AADC BC	MAADC BC
1CANCEL	66%	26%	8%
1PLATFRM	67%	25%	5%
1SCAN	65%	35%	0%
EXPRESS	66%	34%	0%
REWRAP	100%	0%	0%
1MISC	100%	0%	0%
Platform	52%	48%	0%
RPW Volume %	73%	22%	5%

Note: For BUSREPLY, no data was collected.

Additionally, 91.9 percent of the direct tallies in cost pools categorized as Unrelated were excluded from the data used to create Table 2 because they either were (1) in Non-MODS cost pools, or (2) could not be matched to a rate category.<sup>6</sup> As such, the data relied upon by the Postal Service represents just a small fraction of the direct tallies, not nearly enough to be considered reliable.

With regard to the activity of distributing pieces to P.O. boxes, the Postal Service makes a reasonable argument that because the costs are explicitly measured, there is no longer a need to model the activity. The Public Representative supports the discontinuing the P.O. box component of the First-Class letter model.

Lastly, while the Public Representative does not support the categorization of cost pools as proposed by the Postal Service, the Public Representative supports category names that better reflect how each cost pool is treated in the model calibration. The terminology proposed by the Postal Service, appears reasonable.

The Postal Service has failed to meet its burden to justify reclassifying the allied/support cost pools. The failure to classify cost pools that vary with presort level as

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<sup>6</sup> Responses of The United States Postal Service to Questions 1-11 of Chairman's Information Request No. 1, Question 2(c), April 16, 2021.

proportional understates workshare cost avoidance estimates and sends inefficient price signals. However, the Public Representative supports the removal of the modeling of PO box Distribution from the model.

## V. CONCLUSION

For the reasons discussed above, the Public Representative urges the Commission to reject the Postal Service's proposal to treat allied cost pools as unrelated to presort. The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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